



US\$2.023bn Market cap
51% Free float
US\$2.284mn Avg. daily volume

Target price **89.00** 5.6% over current
Current price **84.30** as at 17/8/2021

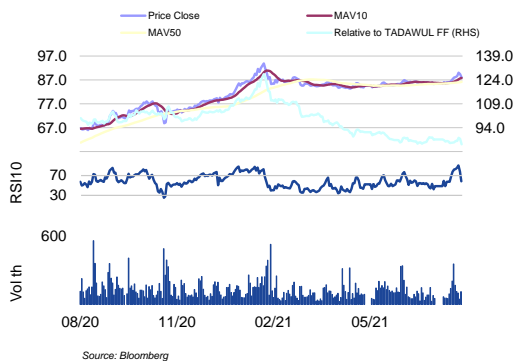
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Existing rating

Underweight **Neutral** **Overweight**

Performance



Earnings

(SARmn)	2020A	2021E	2022E
Revenue	898	876	956
Revenue growth	13%	-3%	9%
Gross profit	473	433	483
Gross margin	53%	49%	50%
EBITDA	497	449	494
EBITDA margin	55%	51%	52%
Net profit	420	371	417
Net margin	47%	42%	44%
EPS	4.66	4.12	4.63
DPS	4.45	4.45	4.50
Payout ratio	95%	108%	97%
EV/EBITDA	13.3x	14.6x	13.1x
P/E	18.1x	20.5x	18.2x
RoE	23.2%	20.8%	23.3%

Source: Company data, Al Rajhi Capital

Qassim Cement

Revenue to come under pressure in the short term; TP at SAR 89/sh

Qassim Cement (QACCO) registered a revenue of SAR198mn, a y-o-y increase of 18.1% and, was marginally lower than our estimate of SAR199mn. Sales were aided by a 29.8% y-o-y improvement in cement volume. Cement sales volume for 2Q21 came in at 1.1mn tons, 8.1% higher than our estimate. Gross profits and operating income increased by 10.1% y-o-y and 11.3% y-o-y respectively. The growth in gross and operating profits was relatively lower, vis-à-vis revenue growth, at the back higher cost of sales. For 2Q21, cement volume of QACCO grew by 29.8% y-o-y, higher than the industry average of 21.3%, but was lower than the performance of central region, which registered an increase of 30.9%. Cement volume growth during the quarter was aided by lower base in 2Q20, due to Covid related restrictions. Going forward, we expect cement volumes to come under pressure in 3Q21 at the back of lower construction activity in the Kingdom due to uncertainties relating to the new building permit norms and shortage in labour. However, we expect the situation to improve by 4Q21. We reduce our target price to SAR89/share from the earlier target price of SAR96/share, and reduce our rating at "Neutral".

Q2 results: Total volume sold during the quarter came in at 1.1mn tons in 2Q21, compared to 1.2mn tons in 1Q21 and 0.9mn tons a year back. At the back of higher cost of sales, gross margins fell to 50.6% in 2Q21, corresponding to 54.3% a year back, but was slightly better than 50.3% in 1Q21. Net margins at 50.6% in 2Q21, was lower compared to 51.0% a year back, though was better than 45.2% in 1Q21. Net profitability in 2Q21 was aided by higher income from investments.

Figure 1 Qassim Cement: Summary of Q2 2021 results

(SARmn)	Q2 2021	Q2 2020	Q1 2021	% chg y-o-y	% chg q-o-q	ARC Estimates
Revenue	198	167	223	18%	-11%	199
Gross Profit	100	91	112	10%	-11%	104
Gross Margin	51%	54%	50%	NA	NA	52%
Operating Profit	92	82	104	11%	-12%	96
Net Profit	100	85	101	17%	-1%	93

Source: Company data, Al Rajhi Capital

Valuation and risks: For our estimates, we expect input and energy prices to remain flat. We value the company based on an equal mix of DCF and dividend capitalization methods. The DCF target price is based on a 2.0% terminal growth and WACC of 7.6% and comes to SAR89/share. Dividend capitalization is based on a fair value dividend yield of 5% and also comes to SAR89/share. Overall, we have reduced our target price for the company to SAR89 per share, an upside of 5.6%, which implies a "Neutral" rating. The key downside risk is a decline in volume and an upward revision to input prices such as fuel. The key upside risks are higher than expected cement price and higher than forecasted pick up in the government's infrastructure spending.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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